

# **Audit**



# **Report**

OFFICE OF THE INSPECTOR GENERAL

**ACCESSORIAL CHARGES APPLIED TO  
FOREIGN MILITARY SALES**

**Report Number 92-108**

**June 26, 1992**

**Department of Defense**

**The following abbreviations and acronyms are used in this report.**

AFLC.....	Air Force Logistics Command
AVSCOM.....	Aviation Systems Command
CAS.....	contract administration services
DCMDs.....	Defense Contract Management Districts
DDHS.....	Detail Delivery History Search
DFAS.....	Defense Finance and Accounting Service
DIFS.....	Defense Integrated Finance System
DLA.....	Defense Logistics Agency
DSA.....	Deputy for Security Assistance
DSAA.....	Defense Security Assistance Agency
DTS.....	Defense Transportation System
FMS.....	foreign military sales
LOA.....	Letter of Offer and Acceptance
MICOM.....	Army Missile Command
NAVAIR.....	Naval Air Systems Command
MISIL.....	Management Information System for International Logistics
NAVILCO.....	Navy International Logistics Control Office
NAVSEA.....	Naval Sea Systems Command
Navy IPO.....	Navy International Programs Office
NSN.....	National Stock Number
PC&H.....	packing, crating, and handling
STARS.....	Standard Accounting and Reporting System
TACOM.....	Tank-Automotive Command
USASAC.....	U.S. Army Security Assistance Command



**INSPECTOR GENERAL**  
**DEPARTMENT OF DEFENSE**  
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**ARLINGTON, VIRGINIA 22202-2884**



June 26, 1992

**MEMORANDUM FOR COMPTROLLER OF THE DEPARTMENT OF DEFENSE**  
**ASSISTANT SECRETARY OF THE NAVY (FINANCIAL**  
**MANAGEMENT)**  
**ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL**  
**MANAGEMENT)**  
**DIRECTOR, DEFENSE SECURITY ASSISTANCE AGENCY**  
**INSPECTOR GENERAL, DEPARTMENT OF THE ARMY**


**SUBJECT: Audit Report on Accessorial Charges Applied to Foreign**  
**Military Sales (Report No. 92-108)**

We are providing this final report for your information and comments. Comments on a draft of this report were considered in preparing the final report.

The report addressed the accuracy of the accessorial charges applied to foreign military sales transactions and whether the charges were promptly billed. Also, we reviewed the adequacy of internal controls related to billing and reimbursing the Military Departments for such costs.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. Therefore, the Commander, Army Materiel Command, and the Under Secretary of the Air Force (International Affairs) must provide comments on the final report by August 26, 1992. Those comments must indicate concurrence or nonconcurrence with the recommendations in Part II. DoD Directive 7650.3 also requires that you comment on the estimated monetary benefits, state the amounts you concur or nonconcur with, and give the reason for your nonconcurrence. Recommendations and potential monetary benefits are subject to resolution in the event of nonconcurrence or failure to comment. See the "Status of Recommendations" section at the end of each finding for the recommendations that Army and Air Force must comment on and the specific requirements for your comments.

The courtesies extended to the audit staff are appreciated. If you have any questions about this audit, please contact Mr. Alvin L. Madison at (703) 614-1681 (DSN 224-1681) or Mr. Ronald C. Tarlaian at (703) 614-1365 (DSN 224-1365).

  
Robert J. Lieberman  
Assistant Inspector General  
for Auditing

cc:  
Secretary of the Army  
Secretary of the Navy  
Secretary of the Air Force

Office of The Inspector General

AUDIT REPORT NO. 92-108  
Project No. 1FA-0002

June 26, 1992

**FINAL AUDIT REPORT ON**  
**ACCESSORIAL CHARGES APPLIED TO FOREIGN MILITARY SALES**

**EXECUTIVE SUMMARY**

**Introduction.** Accessorial charges are those costs applied to foreign military sales (FMS) that are not included in the standard price or contract cost of materiel. The charges are billed to FMS customers when the Military Departments report deliveries of Defense articles. From October 1, 1985, to December 31, 1990, 705 FMS cases involving aircraft, combat vehicle, and missile systems had an estimated delivery value of \$9.1 billion for which accessorial charges could have applied. We reviewed 100 high-dollar value cases that had a delivered value of \$5 billion.

**Objectives.** The objectives of the audit were to determine:

- o the accuracy of the accessorial charges applied to foreign military sales for the recovery of transportation costs; packing, crating, and handling charges; contract administration services; and asset use charges;
- o whether charges had been billed promptly; and
- o the adequacy of internal controls related to billing and reimbursing the Military Departments for such costs.

**Audit Results.** The Military Departments did not properly apply accessorial charges to Defense articles delivered to FMS customers, resulting in overcharges of about \$2.8 million and undercharges of \$11.4 million. Also, the Military Departments had ineffective internal control procedures to ensure that billing information submitted to the Deputy for Security Assistance at the Defense Finance and Accounting Service - Denver Center was accurate and timely.

- o The Military Departments billed inaccurate transportation costs to FMS customers because they did not comply with DoD regulations that required updates to the Transportation Cost Look-up Table. Also, internal control procedures were inadequate to ensure that case managers submitted accurate billing information to the Deputy for Security Assistance. Finally, the Deputy for Security Assistance's system did not accurately process changes in delivery term codes for items in the Look-up

Table. As a result, transportation costs were undercharged \$2 million on 13 cases and overcharged \$2.3 million on 19 cases (Finding A).

- o The Military Departments incorrectly charged FMS customers for packing, crating, and handling and asset use costs. Case managers did not implement internal control procedures to ensure the accuracy of delivery source codes for shipments to FMS customers. As a result, FMS customers were undercharged \$8 million on 15 cases and overcharged \$424,000 on 4 cases (Finding B).

- o The Military Departments did not accurately and promptly report to the Deputy for Security Assistance deliveries of Defense articles to FMS customers. Case managers did not adhere to established procedures for monitoring contractor and depot shipments. Also, unlike the other Military Departments' systems, the Navy's system would not permit deliveries to be reported to the Deputy for Security Assistance until the Navy had recorded payments to contractors. As a result, the costs of transportation and packing, crating, and handling were undercharged \$1.4 million on 19 cases and overcharged \$12,600 on 2 cases (Finding C).

**Internal Controls.** This report identifies three material internal control weaknesses. The first internal control weakness was the fact that the Military Departments did not submit correct billing information to the Deputy for Security Assistance. Case managers did not always monitor the progress of each FMS case, resulting in incorrect billings to FMS customers. See Finding A for details of this weakness.

The second internal control weakness was the inaccuracy of source coding of deliveries reported to the Deputy for Security Assistance. Case managers did not accurately report shipments from procurement contracts and DoD inventories. See Finding B for details of this weakness.

The third internal control weakness was a lack of adequate procedures to monitor contractor and depot shipments to ensure accurate and prompt billing of accessorial charges to FMS customers. Because of the delays, \$246 million was not transferred from the FMS Trust Fund to the proper appropriation accounts. See Finding C for details of this weakness. Details of our review of the internal controls are on page 4.

**Potential Benefits of Audit.** This report identifies monetary benefits of \$11.4 million in the recovery of accessorial charges not applied to FMS customers. Appendix E summarizes monetary and nonmonetary benefits.

**Summary of Recommendations.** We recommended that the Military Departments comply with DoD regulations and update the Transportation Cost Look-up Table. We also recommended that the Military Departments ensure that case managers submit accurate billing information to the Deputy for Security Assistance for each reported delivery of Defense articles to FMS customers. We further recommended that the Navy's Management Information System for International Logistics be reprogrammed to allow accurate and prompt reporting of deliveries to the Deputy for Security Assistance without recorded contractor payments. We also recommended that customers' cases be adjusted to charge correct transportation and packing, crating, and handling costs.

**Management Comments.** The Deputy Comptroller of the Department of Defense concurred with the intent of Recommendation A.3. The Army concurred with each finding, the monetary benefits associated with Findings B and C, and Recommendations A.1.a. and A.2. The Army concurred in principle with Recommendations B.1.a. and C.1. and partially concurred with Recommendation B.1.b. The Army nonconcurred with Recommendation A.1.b. and the monetary benefits associated with the recommendation, stating that proper transportation costs had been billed to FMS customers. The Navy concurred with each finding, all recommendations, and the monetary benefits. The Air Force concurred with the findings, the monetary benefits, and Recommendation A.1.a. The Air Force's comments did not address Recommendations A.2. and C.1. and did not provide completion dates for Recommendations A.1.b., B.1.a., and B.1.b. The Director, Defense Security Assistance Agency, disagreed with Recommendation C.1. regarding delivery reporting procedures. The Military Departments' responses did not support DSAA's position on Recommendation C.1. When responding to the final report, we ask that the Army reconsider its position on the nonconcurrence and that the Army and the Air Force provide us with additional comments. Final comments must be provided by August 26, 1992. The complete text of management comments is in Part IV of the report.



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This report was prepared by the Financial Management Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the information officer, Audit Planning and Technical Support Directorate (703) 614-6303 (DSN 224-6303).

## **PART I: INTRODUCTION**

### **Background**

**Definition.** Accessorial charges are those costs that are incidental to issues, sales, and transfers of materiel but not included in the standard price or contract cost of materiel. These costs include transportation; packing, crating, and handling (PC&H); contract administration services; and asset use.

**Laws and regulations.** The Arms Export Control Act governs the sale of Defense articles to foreign countries and requires that all costs incurred in foreign military sales (FMS) be fully recovered. DoD Manual 5105.38-M, "Security Assistance Management Manual," October 1, 1988, specifies the costs that the Military Departments must include in the pricing of Defense articles in order to comply with the Arms Export Control Act. This manual further requires the Military Departments to report the physical delivery of Defense articles to the Deputy for Security Assistance (DSA), formerly the Security Assistance Accounting Center, within 30 days of the date of shipment. DoD Manual 7290.3-M, "Foreign Military Sales Financial Management Manual," September 18, 1986, gives detailed guidance on policies for the pricing and billing of these costs.

**Management responsibilities.** The Defense Security Assistance Agency (DSAA) has overall responsibility for the coordination and implementation of all FMS agreements. The Military Departments provide Defense articles to satisfy the requirements of these sales. The Military Departments also report all costs of the sales to DSA so that FMS customers can be billed. The Military Departments assign an FMS case manager to each case; the case manager must ensure that all costs of delivering the Defense articles are accurate and are billed promptly. The case manager must also ensure that the Defense Integrated Financial System and the DoD Component's case records agree.

### **Objectives**

The objectives of the audit were to determine the accuracy of accessorial charges applied to FMS for the recovery of transportation costs; packing, crating, and handling charges; contract administration services; and asset use charges. We also determined whether the charges had been billed promptly, and we evaluated internal control procedures for billing and reimbursing the Military Departments.

## **Scope**

**Case selection process.** We obtained reports from DSAA and the Military Departments that listed all Army, Navy, and Air Force cases with deliveries of aircraft, combat vehicles, and missiles to FMS customers between October 1, 1985, and December 31, 1990. The reports listed 705 cases with an estimated delivered value of \$9.1 billion. From these reports, we selected 100 FMS cases with a delivered value of \$5 billion, based on a delivered value of at least \$1 million per case. Specifically, we reviewed 45 Army cases: 10 cases at the Aviation Systems Command (AVSCOM), 11 at the Tank-Automotive Command (TACOM), and 24 at the Missile Command (MICOM). We reviewed 30 Navy cases: 25 cases at the Naval Air Systems Command (NAVAIR) and 5 at the Naval Sea Systems Command (NAVSEA). We also reviewed 25 Air Force cases: 9 cases at the Aeronautical Systems Division (ASD), 10 at the Air Force Logistics Command (AFLC), and 6 at Eglin Air Force Base. Appendix A lists the cases by weapons system.

**Scope elements.** We obtained the Letter of Offer and Acceptance (LOA) and other relevant information from each case file. For each case reviewed, we also obtained from DSA a Detail Delivery History Search (DDHS), which is a detailed record of all case transactions. We determined whether all accessorial costs were applied to each case by comparing case file data (the amount that should have been charged) to the DDHS (actual charges billed for each case). We also determined whether case managers at each Military Department submitted accurate billing information to DSA for all reported deliveries. Further, we reviewed the procedures used by the Military Departments to bill FMS customers, and determined whether the charges were billed promptly. Finally, we reviewed each case to determine whether the Military Departments were properly reimbursed for all accessorial charges.

**Audit period, standards, and locations.** This program audit was made from October 1990 through June 1991 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly included such tests of internal controls as were considered necessary. Appendix F lists the activities we visited or contacted.

## **Internal controls**

**Controls assessed.** We evaluated the Military Departments' internal control procedures for the billing of accessorial charges applied to FMS cases associated with sales of aircraft, missiles, and combat vehicles. We assessed the internal controls that case managers used to monitor billing information submitted to DSA for each reported delivery. We also assessed the internal controls that case managers used to monitor contractor and depot

shipments to ensure prompt billing of FMS customers. Further, we assessed the internal control procedures for ensuring that Military Departments were reimbursed for accessorial charges.

**Internal control weaknesses.** We identified material weaknesses as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5100.76-M. Internal control procedures did not ensure that case managers reported accurate billing information to DSA for items on the Transportation Cost Look-up Table; this resulted in inaccurate billings of transportation charges to FMS customers. Case managers did not follow internal control procedures to ensure the accuracy of delivery source codes for items sold from procurement contracts and DoD inventories. This resulted in incorrect PC&H and asset use costs being charged to FMS customers. We also found an internal control weakness in the procedures that case managers used to report deliveries to DSA, which resulted in delayed billings of accessorial costs to FMS customers and delayed reimbursements to the Military Departments. The internal control weaknesses are discussed in Findings A, B, and C, together with recommendations to correct the weaknesses. We also have determined that monetary benefits of \$11.4 million can be realized by implementing the recommendations. Copies of the final report will be provided to the senior Military Department officials responsible for internal controls for their use in preparing annual internal control statements.

#### **Prior Audits and Other Reviews**

Inspector General, DoD, Report No. 91-055, "Pricing and Billing of Stinger Missiles Sold to Foreign Military Sales Customers," February 27, 1991, identified problems in MICOM's method of applying and billing asset use costs to FMS customers. MICOM did not submit prompt reports to DSA when Defense articles were shipped to FMS customers. Also, the Defense Finance and Accounting Service - Denver Center (DFAS - Denver) erroneously charged FMS customers for transportation costs due to a problem in the system's programming. These problems resulted in \$4.1 million in overcharges to FMS customers.

Recommendations were made for MICOM to correct incorrect asset use charges and establish procedures to ensure prompt delivery reporting of FMS shipments, and for DFAS - Denver to correct the erroneous transportation charges. MICOM concurred with the recommendations and adjusted each FMS case where erroneous asset use charges had been billed to FMS customers. Further, MICOM established procedures to allow case managers to promptly report all deliveries to FMS customers. DFAS concurred with the recommendation and adjusted the incorrect transportation charges.

### Other Matters of Interest

In July 1990, the Defense Logistics Agency (DLA) assumed the responsibility for submitting contract administration services (CAS) charges to DSA so that the Military Departments can be reimbursed. Defense Contract Management Districts (DCMDs) submit dollar amounts for CAS charges to DLA, which consolidates the charges and forwards them to DSA for reimbursement so that the Military Departments can be reimbursed. The DSAA Comptroller was concerned about the accuracy of the CAS charges, stating that wide variations and adjustments occurred in the monthly CAS charges submitted by DLA to DSA. Also, DSAA informed us that specific guidance had not been written concerning the lines of responsibility or procedures to be followed in reporting CAS charges to DSA.

We visited three DCMDs to determine the effectiveness of the CAS reimbursement program after July 1990. The variations and adjustments to the monthly CAS charges that DLA submitted to DSA resulted from errors and untimely input by the DCMDs, not from a lack of standardized procedures for calculating the reimbursements. The DCMDs used uniform written guidance for reporting CAS charges to DLA. We did not report any findings on CAS.

## **PART II - FINDINGS AND RECOMMENDATIONS**

### **A. Transportation Costs**

The Military Departments did not accurately bill transportation costs to foreign military sales (FMS) customers for shipments of Defense articles. This condition had three causes. First, the Military Departments did not always comply with DoD's requirement that the Transportation Cost Look-up Table <sup>1/</sup> (the Look-up Table) be updated annually. Second, the Military Departments lacked effective internal controls to ensure that case managers reported accurate billing information to the Deputy for Security Assistance (DSA) for customers' deliveries. Third, DSA's Defense Integrated Financial System (DIFS) did not accurately compute transportation costs for Look-up Table items when the method of delivery was changed. As a result, FMS customers were overcharged by \$2.3 million for transportation costs on 19 cases and undercharged by \$2 million on 13 cases.

#### **DISCUSSION OF DETAILS**

**Regulations for the Transportation Cost Look-up Table.** DoD Manual 7290.3-M, "Foreign Military Sales Financial Management Manual," September 18, 1986, states that the cost of Defense Transportation System (DTS) shipments shall be recovered by means of a surcharge based on a percentage of the unit price of the article or by using the Look-up Table. DoD Manual 7290.3-M also allows the Military Departments to submit actual or estimated transportation costs through the delivery reporting process using the "FMS Detail Delivery Report" (DD Form 1517). DSA applies Look-up Table rates when DD Forms 1517 are received from Military Departments. The Military Departments use DD Form 1517 to report to DSA the costs of new procurements and Defense articles shipped from DoD inventory. DoD Manual 5105.38-M, "Security Assistance Management Manual," October 1, 1988, states that each Military Department will provide the Defense Security Assistance Agency (DSAA) with annual updates to the Look-up Table for Defense articles (surcharge rates for existing, added, or deleted items). DoD Manual 5105.38-M further states that the Look-up Table should give estimates of actual transportation costs for items that DTS routinely ships, if transportation costs based on the percentage rate are significantly different from actual costs.

**Billing of transportation costs.** We determined that customers were mischarged transportation costs on 32 of 100 FMS cases; 19 cases had overcharges totaling \$2.3 million, and 13 cases had undercharges totaling \$2 million. Customers were mischarged for the reasons discussed below. Appendix B lists the FMS cases and the erroneous transportation costs.

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<sup>1/</sup> Provides estimates of actual transportation costs for items routinely shipped by the Defense Transportation System (DTS).

**Compliance with DoD regulations.** Transportation costs were mischarged on 18 of 100 FMS cases because the Military Departments did not comply with the requirement in DoD Manual 5105.38-M to update the Look-up Table annually. The annual updates are required because of changes in DTS's costs to transport Defense articles. We determined that items should have been added to the Look-up Table based on current models of systems already in the Look-up Table.

**Army.** Army subordinate commands, through the U.S. Army Security Assistance Command (USASAC), were responsible for submitting annual updates of the Look-up Table to DSAA. Most Army subordinate commands had complied with DoD Manual 5105.38-M and were updating the Look-up Table, but not on a timely basis. We found that some customers were overcharged transportation costs of \$664,000 because the Look-up Table was not updated promptly. For example, the Army Missile Command (MICOM) had three FMS cases (BA-B-UCS, JA-B-VSY, and NE-B-VNW) that had deliveries of two tube-launched, optically tracked, wire command-link (TOW) guided missile systems and one Patriot missile system before data on these systems were included in the Look-up Table. MICOM personnel said these weapons systems were in full production by 1987, but MICOM did not submit data on these items to USASAC to update the Look-up Table until October 1990. Therefore, the FMS customers were charged for transportation costs using a percentage rate, which resulted in overcharges.

**Navy.** The Navy International Programs Office (Navy IPO) was responsible for requesting annual updates to the Look-up Table from the Navy Systems Commands (the Naval Air Systems Command [NAVAIR] and the Naval Sea Systems Command [NAVSEA]) for Navy weapons systems. However, since December 1989, the Navy had not submitted annual updates for weapons systems to comply with DoD Manual 5105.38-M. As a result, for 7 of 30 cases with systems or components that should have been added to the Look-up Table, 5 cases had been overcharged transportation costs of \$328,000, and 2 cases had been undercharged \$158,000.

**Air Force.** The Deputy Under Secretary of the Air Force (International Affairs) tasked the Air Force Systems Command and the Air Force Logistics Command (AFLC) to submit annual updates to the Look-up Table for Air Force weapons systems. However, since December 1989, the Air Force had not updated the Look-up Table as required by DoD Manual 5105.38-M. As a result, customers were overcharged transportation costs of \$73,000 on two cases and undercharged \$174,000 on four cases. Also, for two other Air Force cases with multiple case lines, FMS customers were both overcharged by \$245,000 and undercharged by \$380,000 for transportation costs.

**Internal controls.** The Military Departments used ineffective internal control procedures to process billing information. For 10 of 100 FMS customers' cases, case managers had not submitted accurate billing information, such as correct transportation bill codes and National Stock Numbers (NSNs), to the Military Departments responsible for reporting deliveries to DSA. As a result, customers were overcharged \$427,000 on six cases and undercharged \$1,238,000 on four cases.

**Army.** We reviewed 45 Army cases and determined that for 2 cases, the Aviation Systems Command (AVSCOM) used ineffective internal control procedures to process billing information. In one case, the FMS customer was overcharged transportation costs of \$57,000, and in another case, the customer was undercharged transportation costs of \$23,000. These erroneous charges occurred because case managers did not monitor the FMS cases and submit the proper billing information to DSA.

**Navy.** The Navy lacked effective internal controls to ensure that the Navy International Logistics Control Office (NAVILCO) and the Navy Systems Commands reported accurate data through the Management Information System for International Logistics system and the Standard Accounting and Reporting System. The Navy Systems Commands should provide accurate data to NAVILCO from case implementation until case closure. NAVILCO is responsible for reporting deliveries of Defense articles to DSA. The Navy Systems Commands and NAVILCO did not report the correct transportation bill codes and NSNs needed to ensure that FMS transactions were accurate and complete, and transportation costs were properly billed by DSA. As a result, customers were overcharged transportation costs of \$370,000 on 5 of 30 cases and undercharged \$182,000 on 2 of 30 cases.

**Air Force.** In 1 of 25 cases, AFLC did not charge transportation costs of \$1,033,000 to the FMS customer because the case line manager did not amend the LOA. According to the LOA for the sale of 290 Maverick missiles to Germany, a delivery term code of "4" was to be used, making the FMS customer responsible for transporting the missiles from the contractor's facility in the United States to Germany. The "Requisition and Invoice Shipping Document" (DD Form 1149) showed that the contractor shipped the missiles to an Army storage site at Sunny Point, North Carolina. Thus, the case line manager should have amended the LOA and changed the delivery term code from "4" to "8," indicating that DTS shipped the missiles to a stateside port. If the LOA had been properly amended, transportation costs would have been billed to the customer when AFLC reported the delivery to DSA.

Processing changes in methods of delivery. In 4 of 100 cases, FMS customers were erroneously billed for transportation costs. These erroneous billings occurred because of a systemic problem with DSA's DIFS. The system did not accurately process changes in methods of delivery to FMS customers. When customers request changes in the method of delivery for Look-up Table items, the Military Departments should change the delivery term code and report an appropriate transportation bill code on DD Form 1517. According to DoD Manual 7290.3-M, the transportation bill code must be used if the delivery term code is changed. However, when the data on DD Form 1517 met the criteria for a valid Look-up Table item, DIFS automatically input a "W" for the transportation bill code. This caused the system to charge a Look-up Table rate for the delivery, regardless of the Military Department's instructions. Because of this problem in the DIFS, FMS customers were overcharged \$602,000 in transportation costs on two cases, and undercharged \$39,000 on two other cases. To prevent DIFS from charging the transportation rate established in the LOA, additional transportation bill codes should be incorporated in DIFS to recognize changes in the method of delivery.

#### RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Commander, Army Materiel Command; the Deputy Assistant Secretary of the Navy for International Policy; and the Deputy Under Secretary of the Air Force (International Affairs):

a. Require operating activities to comply with DoD Manual 5105.38-M, "Security Assistance Management Manual," by submitting annual updates to the Transportation Cost Look-up Table in a timely manner.

b. Correct the transportation charges for the foreign military sales cases listed in Appendix B.

2. We recommend that the Commander, Army Materiel Command; the Navy International Programs Office; and the Deputy Under Secretary of the Air Force (International Affairs) strengthen internal control procedures to ensure that for each delivery reported, accurate transportation billing information is submitted on DD Form 1517 to the Deputy for Security Assistance.

3. We recommend that the Deputy Comptroller of the Department of Defense (Management Systems) implement a change to DoD Manual 7290.3-M, "Foreign Military Sales Financial Management Manual," to add transportation bill codes to allow the Deputy for Security Assistance's system to charge the correct transportation rate when the method of delivery changes for items on the Transportation Cost Look-up Table.

### MANAGEMENT COMMENTS

The Deputy Comptroller for Management Systems, DoD, concurred with the intent of Recommendation A.3. in the draft report and is using SD (Secretary of Defense) Form 106 to coordinate a formal change to a proposed Volume 15, "Security Assistance Policies and Procedures," of a new financial management regulation that is intended to replace DoD Manual 7290.3-M. The proposed change would require charging actual transportation costs instead of the surcharge or Look-up Table rate. The SD Form 106 comments are due from the DoD Components in mid-1992. The Deputy Comptroller stated that if actual costs cannot be implemented, improvements to the operation of the Look-up Table will be initiated, such as the mandatory use of transportation bill codes.

The Army concurred with Recommendations A.1.a. and A.2. in the draft report. On Recommendation A.1.a., the Army stated that operating activities will be required to submit annual updates to the Transportation Cost Look-up Table in a timely manner. On Recommendation A.2., the Army stated that effective internal control procedures will be used to ensure the accuracy of transportation billing information submitted on DD Form 1517 to the Deputy for Security Assistance. However, the Army disagreed with our statement that AVSCOM used ineffective internal control procedures to process billing information, which led to overcharges of \$57,092 and undercharges of \$22,642. For FMS case PI-B-UMZ, the Army stated that according to a printout of the DIFS, AVSCOM had not charged the FMS customer for any transportation costs. For FMS TH-B-VMY, the Army stated that based on the normal billing cycle for aircraft procurements, a determination regarding the \$22,642 undercharge could not be made at this time.

The Army nonconcurred with Recommendation A.1.b. in the draft report to correct the transportation charges detailed in Appendix B, and the monetary benefits of the recommendation. In nonconcurring with Recommendation A.1.b, the Army stated that the use of the percentage method is appropriate until DSAA approves a rate for inclusion on the Look-up Table. The policy is to make no retroactive adjustments to billing after the Look-up Table is changed. In nonconcurring with the monetary benefits, the Army stated that the weapons systems for the 2 TOW missile cases were not in full production in 1987, and that an Engineering Change Proposal was incorporated into the contract in September 1989. The shipments for these weapons systems occurred in 1990, before DSAA approved the Look-up Table rate. MICOM submitted information to DSAA in August 1989 to have these weapons systems included on the Look-up Table. However, since the cut-off for inclusion on the Look-up Table is June, the information was submitted too late for inclusion on the FY 1990 Look-up Table.

The Navy concurred with Recommendations A.1.a., A.1.b., and A.2.; and the monetary benefits in the draft report. Pertaining to Recommendations A.1.a. and A.1.b., the Navy IPO will require the Navy community to submit updates to the Look-up Table. In addition, the Navy IPO will monitor the progress of these updates and ensure that information is submitted to correct the transportation charges identified in Appendix B of the draft report. The estimated completion date for these actions is September 30, 1992. Regarding Recommendation A.2., the Navy IPO will also review transportation charges during case management reviews and financial reconciliation at case closure. The estimated completion date for this action is June 30, 1992.

The Air Force concurred with Recommendations A.1.a. and A.1.b., and the monetary benefits in the draft report. On Recommendation A.1.a., the Air Force stated that the Look-up Table had not been adjusted and that assessing the standard accessorial percentage for high-dollar items such as missiles is inappropriate. The Air Force is reviewing transportation costs for the Look-up Table for the annual October update. However, the Air Force stated that the Look-up Table is an inaccurate tool for assessing transportation costs. The Look-up Table reflects the estimated transportation costs for a single unit; however, the purchase and transportation of a single unit is uncommon, and transportation costs in the Defense Transportation System do not graduate linearly along a predetermined cost scale. Since transportation costs are based on cubic weight and mileage, accurate cost tables cannot be developed. Also, depending on the final destination, charges using the Look-up Table vary substantially. Regarding Recommendation A.1.b., the Air Force stated that the cases identified in Appendix B are being reviewed, and any incorrect transportation charges will be corrected.

#### AUDIT RESPONSE TO MANAGEMENT COMMENTS

The Deputy Comptroller for Management Systems, DoD, comments satisfied the intent of Recommendation A.3.

The Army's comments to Recommendations A.1. were fully responsive. The Army's comments to Recommendation A.2. were not fully responsive because the Army did not specify the internal control procedures that would be used to ensure the accuracy of transportation billing information. Therefore, we request that the Army provide this information when responding to the final report. Also, the Army stated that on FMS case PI-B-UMZ, AVSCOM did not charge the FMS customer for transportation costs. Based on our review of DIFS records, AVSCOM adjusted the case in July 1991, shortly before the draft report was issued. Therefore, the overcharge of \$57,092 was accurate when the report was issued. However, based on AVSCOM's actions, Appendix B has been changed to reflect the adjustment. On FMS case TH-B-VMY, AVSCOM did not

charge the FMS customer for transportation costs of \$22,642, even though materiel had been shipped.

On Recommendation A.1.b., we disagree with the Army's statement that the use of a percentage rate for billing transportation costs is appropriate until a Look-up Table rate is approved. DSAA allows the Military Departments to use a transportation bill code of "D" to submit actual costs when a delivery is reported. Therefore, DSA should not charge transportation costs until the Military Department submits actual cost data. For the three MICOM cases listed in Appendix C in the draft report, MICOM requested and received permission from USASAC to use the same transportation rate in effect for other TOW and Patriot missiles already on the Look-up Table in August 1989. MICOM requested this change because MICOM recognized that the improved models would not be included on the Look-up Table for FY 1990. Although shipment of the improved TOW and Patriot missiles occurred in 1990, before the items were included on the Look-up Table, MICOM could have avoided the overcharges by submitting actual costs rather than using the percentage method. Further, the Army's comments mentioned the two TOW missile cases, but not the Patriot missile case, which represented most of the monetary benefits of the recommendation. Therefore, we request that the Army reconsider its position on Recommendation A.1.b. and the monetary benefits when responding to the final report.

The Navy's comments were fully responsive to the recommendations.

The Air Force's comments to Recommendations A.1.a. were fully responsive. The Air Force's comments to Recommendations A.1.b. and A.2. were not fully responsive. For Recommendation A.1.b., the Air Force did not provide a completion date for reviewing the cases listed in Appendix B as having incorrect transportation charges. For Recommendation A.2., the Air Force's comments did not address the specific internal control procedures that would be strengthened to ensure that accurate transportation billing information was submitted to the Deputy for Security Assistance. Therefore, we request that the Air Force provide this information when responding to the final report.

# STATUS OF RECOMMENDATIONS

		<u>Response Should Cover:</u>			<u>Related Issues*</u>
<u>Number</u>	<u>Addressee</u>	<u>Concur or Nonconcur</u>	<u>Proposed Action</u>	<u>Completion Date</u>	
A.1.b.	Assistant Secretary of the Army (Financial Management)	X	X	X	M
A.1.b.	Assistant Secretary of the Air Force (Financial Management and Comptroller)			X	M
A.2.	Assistant Secretary of the Army (Financial Management)		X	X	IC
A.2.	Assistant Secretary of the Air Force (Financial Management and Comptroller)	X	X	X	IC

\* IC - material internal control weakness

M - monetary benefits

## **B. Packing, Crating, and Handling and Asset Use Charges**

The Military Departments did not accurately bill foreign military sales (FMS) customers for packing, crating, and handling (PC&H) and asset use costs for Defense articles. This condition occurred because FMS case managers did not follow internal control procedures to ensure that deliveries were reported accurately to the Deputy for Security Assistance (DSA). As a result, FMS customers were undercharged \$8 million for PC&H and asset use charges on 15 FMS cases. FMS customers were also overcharged \$424,000 for PC&H and asset use charges on four cases.

### **DISCUSSION OF DETAILS**

**Packing, crating, and handling procedures.** DoD Manual 7290.3-M states that PC&H costs are incurred on Defense articles sold from DoD inventories to FMS customers. PC&H costs are for labor, materiel, or services associated with removing requisitioned Defense articles from storage and preparing them for shipment. PC&H costs are recovered by applying a 3.5-percent surcharge to materiel priced up to \$50,000 per unit, and a 1-percent surcharge to that portion of the unit price over \$50,000.

**Application of asset use charges.** DoD Manual 7290.3-M states that asset use charges apply to FMS cases that require the use of DoD facilities and equipment. Asset use charges for items sold from DoD inventory are recouped by applying a 1-percent charge to the selling price. For items sold from procurement, the unit price includes 4 percent of the cost of the item.

**Fair Pricing Legislation Act.** The Fair Pricing Legislation Act, Public Law 101-165, November 21, 1989, eliminated asset use charges for FMS deliveries reported to DSA after December 1989. Although we reviewed FMS cases with deliveries made between October 1, 1985, and December 31, 1990, we did not review asset use charges for cases with deliveries made after December 1989.

**Reporting PC&H and asset use charges.** The Military Departments report deliveries to DSA on the "FMS Detail Delivery Report" (DD Form 1517), which is used to apply the costs of delivering an item. PC&H and asset use costs are based on the delivery source code, which the Military Departments' finance and accounting offices record on DD Form 1517. Delivery source codes show whether Defense articles were shipped from new procurement or DoD inventory. FMS case managers furnish billing information on customer deliveries to the Military Departments' finance and accounting offices, which prepare the DD Form 1517.

Requirements for case management. FMS case managers are responsible for assuring that all status reports on their cases are accurate, and that all costs associated with cases are valid and are properly billed to FMS customers. DoD Manual 5105.38-M states that as an internal control, the case managers should perform "periodic comparisons of actual versus programmed deliveries and associated costs." To perform these periodic comparisons, case managers should validate the information on DD Form 1517, the Detail Delivery History Search (DDHS), and the Letter of Offer and Acceptance (LOA).

PC&H and asset use. For 15 of 100 FMS cases reviewed, FMS customers were not charged for PC&H costs of \$6,055,000 and asset use costs of \$1,956,000. In 4 of 100 cases, FMS customers were overcharged PC&H costs of \$170,000 and asset use costs of \$254,000. Appendix C is a schedule of the FMS cases with billing errors for PC&H and asset use charges.

Army. For 9 of 45 Army cases reviewed, the finance and accounting offices used incorrect delivery source codes to report deliveries to DSA. Because FMS case managers did not effectively monitor the billing information submitted to DSA, case managers could not identify errors in the reported delivery source codes. Delivery source codes on the DDHS, a detailed record of all FMS case transactions, did not agree with the sources of supply specified in the LOAs. Because incorrect delivery source codes were reported to DSA, FMS customers were not billed for PC&H costs of \$2,224,000 and asset use costs of \$1,524,000 on eight cases. On four cases, customers were overcharged \$170,000 in PC&H costs and \$254,000 in asset use costs because delivery source codes were incorrect. Since PC&H and asset use charges are based on delivery source codes, one or both of these charges could be inaccurate if case managers report the codes incorrectly to DSA on DD Form 1517.

Billing adjustments for PC&H and asset use charges. We found that nine Army cases had problems with billing PC&H and asset use charges. When we notified the Tank-Automotive Command (TACOM) personnel, they immediately adjusted their four cases to recoup \$1,915,000 in PC&H costs. TACOM still needs to adjust one case by \$109,000 in PC&H costs. However, TACOM did not bill customers to recover any asset use costs. The Fair Pricing Legislation Act eliminated asset use charges for FMS deliveries reported to the Deputy for Security Assistance after December 1989. Consequently, DSA's computer system was accurately reprogrammed not to process billings for asset use charges reported on DD Forms 1517. As a result, TACOM must submit manual bills to DSA to charge the FMS customers \$1,467,000 in asset use costs. We commend TACOM managers for their timely actions in adjusting the billings.

**Navy.** For 3 of 30 FMS cases, the Navy International Logistics Control Office (NAVILCO) used incorrect delivery source codes to report deliveries to DSA. NAVILCO incorrectly reported the delivery of Sidewinder and Sparrow missiles from DoD inventory as items sold from procurement. This occurred because case managers at the Naval Air Systems Command did not give NAVILCO the correct billing information so that NAVILCO could accurately report the deliveries. Also, case managers did not verify the accuracy of data on DD Forms 1517 that NAVILCO reported to DSA. As a result, FMS customers were not charged \$1,200,000 in PC&H and \$429,000 in asset use charges.

**Air Force.** By reviewing the data on the DDHS, we identified 7 of 25 Air Force cases for which the Air Force Logistics Command (AFLC) reported deliveries to DSA using incorrect delivery source codes. Case managers at the AFLC's International Logistics Center did not validate the billing information reported to DSA for each delivery. For example, missiles were sold to Saudia Arabia from DoD inventory at Letterkenny Army Depot. The AFLC incorrectly reported the delivery as stock fund items. In October 1990, the Defense Security Assistance Agency changed stock fund pricing policies, and in November 1990, DSA eliminated separate billings for PC&H charges because PC&H charges were already included in stock fund prices. Because the Sparrow missiles were not stock fund items, the case managers' reporting of incorrect delivery source codes resulted in Saudi Arabia not being charged PC&H costs of \$2,474,000. FMS customers were not billed for PC&H costs totaling \$2,630,000 and asset use costs of \$1,800.

#### RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Commander, Army Materiel Command; the Director, Navy International Programs Office; and the Under Secretary of the Air Force (International Affairs):

a. Require foreign military sales case managers to follow internal control procedures and validate the accuracy of delivery source codes reported to the Deputy for Security Assistance for billing customers.

b. Adjust each foreign military sales case that has inaccurate or unbilled packing, crating, and handling and asset use charges using the amounts shown in Appendix C.

#### MANAGEMENT COMMENTS

The Army concurred in principle with Recommendation B.1.a., partially concurred with Recommendation B.1.b., and concurred with the monetary benefits in the draft report. In concurring with Recommendation B.1.a., the Army stated that internal control procedures would be followed and delivery source codes reported

to DSA would be validated for accuracy. However, the Army stated that although the case manager has overall responsibility for all facets of a FMS case, the task of validating and verifying the accuracy of costs billed are assigned to supporting personnel in finance and accounting offices. To properly manage an FMS case, the case manager relies on finance and accounting offices to provide the necessary reports. In partially concurring with Recommendation B.1.b., the Army stated that the Missile Command (MICOM) had made corrections in June 1991, but the corrections were not mentioned in the draft report. The Army also stated that TACOM adjusted each case that had inaccurate or unbilled PC&H and asset use charges as identified in Appendix C. The Army further stated that the Aviation Systems Command (AVSCOM) does not believe that the 1-percent asset use charge should be applied to the carcass billed value of the aircraft. The intent of these three cases was to provide used, overhauled aircraft to the FMS customer. AVSCOM included a 1-percent asset use charge on the repair parts issued out of inventory. All three cases were closed at DSA (formerly the Security Assistance Accounting Center) and one case was not rebillable, since the amount was below the criteria for reopening a case.

The Navy concurred with Recommendations B.1.a. and B.1.b. in the draft report, stating that the Navy International Programs Office would review delivery source codes during case management reviews and case closure reconciliations to apply the correct charges. When verified as inaccurate, the PC&H and asset use charges shown in Appendix C will be submitted for correction. The estimated completion date for these actions is September 30, 1992.

The Air Force concurred with Recommendations B.1.a. and B.1.b. in the draft report stating that a mechanism is needed to prevent and detect errors in the delivery source codes that could result in incorrect PC&H charges. The AFLC will review the regulations used by operating personnel who apply delivery source codes, and will take needed action. The Air Force will also research the cases with inaccurate PC&H charges and take corrective action.

#### AUDIT RESPONSE TO MANAGEMENT COMMENTS

The Army's comments satisfied the intent of the recommendations. The draft report did not credit MICOM with correcting the erroneous charges for PC&H and asset use charges because MICOM did not submit the corrections to DSA until June 1991, and our audit field work had been completed. However, based on our subsequent review of DSA's records, we commend MICOM for adjusting the erroneous PC&H and asset use charges identified in Appendix C. Based on the Army's response to Recommendation B.1.b. and the fact that asset use charges have been eliminated and the affected cases have been closed, we have deleted the three AVSCOM cases from Appendix C in the final report.

The Navy's comments were fully responsive to the recommendations.

The Air Force's comments were not fully responsive to the recommendations. Regarding Recommendation B.1.a., the Air Force did not address the specific mechanism that would be established to prevent and detect errors in the delivery source codes. For Recommendation B.1.b., the Air Force did not provide a completion date for researching the cases with inaccurate PC&H and asset use charges listed in Appendix C in the draft report. Therefore, we request that the Air Force provide this information when responding to the final report.

#### STATUS OF RECOMMENDATIONS

<u>Number</u>	<u>Addressee</u>	<u>Response Should Cover:</u>			<u>Related Issues*</u>
		<u>Concur or Nonconcur</u>	<u>Proposed Action</u>	<u>Completion Date</u>	
B.1.a.	Assistant Secretary of the Air Force (Financial Management and Comptroller)		X	X	IC
B.1.b.	Assistant Secretary of the Air Force (Financial Management and Comptroller)			X	M

\* IC - material internal control weakness

M - monetary benefits



### C. Delivery Reporting Procedures

The Military Departments did not submit accurate and timely reports to the Deputy for Security Assistance (DSA) when Defense articles were delivered to foreign military sales (FMS) customers. These conditions occurred because case managers did not follow internal control procedures by accurately monitoring the reporting of shipments from contractors and depots to FMS customers, as required by DoD Manual 5101.38-M. Also, the Navy's reporting system, unlike the Army and Air Force systems, did not permit deliveries from contractors to be reported to DSA until payments to contractors had been recorded. As a result, FMS customers were undercharged \$1.4 million for transportation and packing, crating, and handling (PC&H) costs on 19 cases, and overcharged by \$12,600 on 2 cases. Also, the untimely reporting of deliveries to DSA for billing of FMS customers delayed the transfer of \$246 million in FMS funds from the FMS Trust Fund Account to the proper U.S. Government appropriations.

#### DISCUSSION OF DETAILS

Delivery reporting process. DoD Manual 7290.3-M states that Military Departments shall report accrued expenditures (work in process) and physical deliveries to DSA on DD Form 1517 within 30 days of shipment or performance. Accessorial charges are billed to FMS customers when Military Departments report physical deliveries to DSA. In order to report physical deliveries to DSA, Military Departments must receive confirmation of shipments from contractors or depots. Contractors submit DD Form 250 ("Materiel Inspection and Receiving Report") to notify Military Departments of direct shipments. For shipments from DoD inventory, depots enter confirmation notices of material releases into the supply system of the Military Departments. DoD Manual 5105.38-M states that FMS funds collected in advance of deliveries or services performed must be available for reimbursement to U.S. Government appropriations when each delivery is reported to DSA.

Case management responsibilities. DoD Manual 5105.38-M outlines case managers' responsibilities for the implementation, activity, and closure of FMS cases. Case managers must validate all costs for accuracy and prompt billing, work with other organizational elements to solve problems, and ensure that DSA's system and the Military Departments' records are in agreement.

**Accuracy of reported delivery transactions.** Transportation and PC&H costs for 8 of 100 cases were inaccurately charged to FMS customers because case managers did not follow established procedures or lacked the documentation necessary to accurately monitor contractor and depot shipments for deliveries reported to DSA for billing. The Army had five FMS cases with undercharges of \$173,000 and one case with an overcharge of \$1,400; the Navy had one case with an undercharge of \$47,000 and one case with an overcharge of \$11,000.

**Army.** Army Missile Command (MICOM) case managers lacked the controls or documentation to adequately monitor the status of their cases. For example, the Letter of Offer and Acceptance for one case showed that 384 Chaparral missiles were to be delivered to Egypt. The Detail Delivery History Search, a detailed record of case transactions submitted by the activity to DSA, showed that for 352 missiles delivered so far to the FMS customer, the billed transportation costs were inaccurate because the wrong National Stock Number was reported as delivered. DSA later adjusted the case incorrectly because the case manager did not communicate with the finance and accounting office on the correct transportation costs for the item actually delivered. Therefore, the FMS customer was undercharged \$87,000 in transportation costs.

**Navy.** Two Navy cases had inaccurate charges because the case manager did not adequately monitor the billing information reported to DSA for customer deliveries. For example, on one case, 20 Sidewinder missiles, 30 guidance control units, and 30 rocket motors were sold to Venezuela. The case was fully delivered; however, the case manager at the Navy International Logistics Control Office (NAVILCO) incorrectly reported the deliveries to DSA as one missile, one guidance control unit, and one rocket motor. Therefore, the FMS customer was not billed for PC&H costs of \$47,000.

**Shipments reported to DSA.** Transportation and PC&H costs for 13 of 100 cases reviewed were not charged because the Military Departments did not report the deliveries to DSA for billing of customers. The Army had 1 case with an undercharge of \$612,000, the Navy had 11 cases with undercharges of \$338,000, and the Air Force had 1 case with an undercharge of \$280,000. These undercharges occurred because Army and Air Force case managers did not monitor those deliveries. Also, the Navy's Management Information System for International Logistics (MISIL) system would not process reports of customer deliveries until payments to contractors had been recorded. To ensure that customers are billed promptly, we believe the MISIL system should be programmed to allow for reporting of customer deliveries without recorded contractor payments.

**Army.** Of the 45 cases reviewed, the case manager for one Army case at the Army Tank-Automotive Command (TACOM) did not report the delivery of 60 tanks to Morocco. The tanks were shipped from DoD inventory in Europe in May 1990, but were not reported to DSA for billing of the customer. The case manager had not responded to messages from the U.S. European Command stating that the Morocco shipment had been made. Because of this oversight, the FMS customer was not billed \$412,000 in transportation costs and \$200,000 in PC&H costs. As a result of our audit, TACOM reported the delivery of the 60 tanks to DSA in April 1991. However, DSA billed the FMS customer for only \$233,000 in transportation costs. After the Fair Pricing Legislation Act was implemented, DSA changed the Defense Integrated Financial System in October 1990 to reflect new billing procedures. Because TACOM used incorrect delivery source codes to report the delivery to DSA, transportation and PC&H costs were not charged to the FMS customer. To bill the FMS customer, TACOM must submit to DSA a manual bill for transportation charges of \$179,000 and PC&H costs of \$200,000.

**Navy's system for reporting deliveries.** Of the 30 Navy cases reviewed, we identified 11 cases, 6 at the Naval Air Systems Command (NAVAIR) and 5 at the Naval Sea Systems Command (NAVSEA) with transportation costs of \$338,000 that were not billed to FMS customers. Because NAVAIR and NAVSEA used different reporting systems, the Navy did not always report contractor deliveries to DSA for billing FMS customers. The Navy's MISIL system (used by NAVAIR and NAVILCO) would not process reported deliveries unless payments have been made to contractors. Missiles and missile components had been shipped to customers for six NAVAIR cases; however, NAVILCO had not reported the shipments to DSA. For example, three Harpoon missiles were shipped to Turkey in December 1987. Those missiles had not been reported to DSA because NAVILCO had not received confirmation that the contractor had been paid against the Harpoon contract. Therefore, the MISIL system would not process the bill to charge the FMS customer for transportation costs of \$20,000 until NAVILCO had recorded the contractor payment. This procedure is questionable because it delays customer billings. Navy personnel could not explain why the MISIL system processed billings in such a manner.

For five FMS cases, NAVSEA had not reported customer billings to DSA. NAVSEA used the Standard Accounting and Reporting System, a financial system that was not compatible with the MISIL system, to report customer deliveries. The Naval Undersea Warfare Engineering Station in Keyport, Washington, used a system similar to MISIL. Because of the incompatibility of the two systems, the Naval Undersea Warfare Engineering Station needed to inform NAVSEA personnel that Defense articles had been shipped to FMS customers. This error in reporting the shipments did not allow NAVSEA to manually bill the FMS customers for the deliveries.

**Air Force.** For the 25 Air Force FMS cases reviewed, only one case had an unreported delivery. Case managers at the Air Force Logistics Command (AFLC) did not report to DSA the delivery of 30 aircraft to Korea. The procurement office furnished case managers with estimated costs for the 30 aircraft; however, AFLC case managers needed the aircraft tail numbers in order to determine the actual cost of the aircraft so they could report the delivery to DSA for billing. Aircraft were identified and tracked by the tail numbers, which identified the production date of the aircraft. Case managers and procurement personnel used the tail numbers to determine the actual costs of the aircraft. Since case managers did not contact the procurement office to obtain actual costs for the aircraft, PC&H costs of \$280,000 were not billed to the FMS customer because the lower estimated cost of the aircraft was used to bill the FMS customer.

**Promptness of reported deliveries.** DoD Manual 7290.3-M states that the Military Departments should report accrued expenditures and physical deliveries to DSA within 30 days of the date of shipment. Because DSA processes billings on a fixed monthly cycle, the 30-day standard is difficult to achieve. Therefore, for purposes of this audit, we used 60 days as the standard for completion of the billing cycle before we identified billings as delayed. For the 100 FMS cases reviewed, the Military Departments' case managers reported 701 separate shipments of aircraft, missiles, and combat vehicles to DSA for billing. Seventy-four (55 percent) of 135 Army shipments, 224 (81 percent) of 278 Navy shipments, and 228 (79 percent) of 288 Air Force shipments were reported to DSA after 60 days. Delays in the reporting of deliveries had three causes: documentation for billing customers was inadequate; case managers did not follow established internal control procedures for monitoring shipments; and the Navy's MISIL system did not process reported deliveries until contractor payments were recorded. As a result, FMS customers' quarterly billing statements were understated and customer funds on deposit in the FMS Trust Fund were not made available immediately to reimburse the U.S. Government appropriations that financed the FMS sales. We estimated that the U.S. Government could have transferred funds amounting to \$246 million from the FMS Trust Fund to the correct appropriations.

#### **RECOMMENDATIONS FOR CORRECTIVE ACTION**

1. We recommend that the Commander, Army Materiel Command; the Navy International Programs Office; and the Under Secretary of the Air Force (International Affairs) require case managers to follow procedures in DoD Manual 5105.38-M to ensure that foreign military sales cases are effectively monitored, and shipments from contractors and depots are reported to the Deputy for Security Assistance. Specifically, case managers must validate

all delivery reports for accuracy and ensure that all reports are promptly sent to the Deputy for Security Assistance for billing of accessorial charges.

2. We recommend that the Commander, Naval Supply Systems Command direct the Navy International Logistics Control Office to reprogram the Management Information System for International Logistics system to allow deliveries to be reported to the Deputy for Security Assistance so that foreign military sales customers can be billed without recorded contractor payments.

#### MANAGEMENT COMMENTS

The Department of the Army concurred in principle with Recommendation C.1. and concurred with the monetary benefits. The Army stated that the case manager has overall responsibility for the financial and logistical aspects of a FMS case. However, the validation process should be performed by the office that conducts financial reviews and financial closeout of case lines. This function is assigned to finance and accounting offices.

The Navy concurred with Recommendation C.1., and stated that the Navy International Programs Office will review delivery reporting performance during case management reviews and reconciliation for case closure. The estimated completion date is June 30, 1992.

The Navy concurred with Recommendation C.2., and stated that the MISIL system has been reprogrammed to allow deliveries to be reported to DSA without actual contractor payments. However, the Navy stated that rigid enforcement of reporting deliveries prior to contractor payments will negatively affect the unreconciled balance between deliveries and disbursements in the FMS Trust Fund.

The Air Force concurred with Recommendation C.1. and stated that the error in delivery reporting on FMS case KS-D-SIH is being reviewed and corrective action will be taken.

The Defense Security Assistance Agency (DSAA) stated that the audit report did not properly interpret the significance of delayed reporting procedures. DSAA stated that timely reporting is necessary for customer feedback, collection of accessorial charges, and documentation of dates for filing Reports of Discrepancy. However, DSAA stated that billing FMS customers or making payments to the Military Departments is not dependent on reporting of physical deliveries. FMS customers are billed on payment schedules in anticipation of disbursements and deliveries. Also, payments to contractors for production (which usually cite the FMS Trust Fund, not the appropriation) or to the Military Departments for issues from stock are made before deliveries are reported to DSA (formerly the Security Assistance

Accounting Center). Therefore, the statement that \$246 million could have been transferred to appropriations is not supported.

#### AUDIT RESPONSE TO MANAGEMENT COMMENTS

The Army's comments were fully responsive to the recommendation.

We consider the Navy's comments to Recommendations C.1. and C.2. to be fully responsive. However, the Navy needs to adhere to MISIL system procedures for promptly reporting shipments of Defense articles sold to FMS customers. As stated in Finding C, the Navy had not reported contractor shipments for several years because contractors had not submitted vouchers for payment. The need to transfer funds from the FMS Trust Fund to U.S. Government appropriations outweighs the Navy's concern about unreconciled balances. For example, commercial carriers can be paid for transportation costs on a reimbursable basis only if funds are available for disbursement. Those funds become available only when the delivery is reported. At that time, DSA bills the customer's FMS Trust Fund account and transfers the funds to U.S. Government appropriations.

The Air Force's comments on Recommendation C.1. were not fully responsive. The Air Force's comments did not address the recommendation requiring case managers to follow procedures in DoD Manual 5105.38-M to ensure that FMS cases were effectively monitored and that shipments from contractors and depots were reported to DSA. Therefore, we request that the Air Force comment on Recommendation C.1. when responding to the final report.

We disagree with DSAA's comments concerning delivery reporting procedures. We recognize that FMS customers are billed on payment schedules and that the funds are deposited in the FMS Trust Fund. The \$246 million that was not promptly transferred from the FMS Trust Fund to the Military Departments consisted of stock items issued from DoD inventory and accessorial charges. For those transactions, Military Departments disbursed their own funds. In order for the Military Departments to be properly reimbursed from the FMS Trust Fund, a delivery transaction must be reported to DSA. Therefore, timely reporting of customer deliveries is essential.

STATUS OF RECOMMENDATIONS

<u>Number</u>	<u>Addressee</u>	<u>Response Should Cover:</u>			<u>Related Issues*</u>
		<u>Concur or Nonconcur</u>	<u>Proposed Action</u>	<u>Completion Date</u>	
C.1.	Assistant Secretary of the Air Force (Financial Management and Comptroller)	X	X	X	IC

\* IC - material internal control weakness



**PART III: ADDITIONAL INFORMATION**

- APPENDIX A - Weapon System Deliveries and Case Selections
- APPENDIX B - Erroneous Transportation Charges
- APPENDIX C - Inaccurate Packing, Crating, and Handling (PC&H)  
and Asset Use Charges
- APPENDIX D - Delivery Reporting Errors
- APPENDIX E - Summary of Potential Benefits Resulting from the  
Audit
- APPENDIX F - Activities Visited or Contacted
- APPENDIX G - Report Distribution



**APPENDIX A: WEAPON SYSTEM DELIVERIES AND CASE SELECTIONS**

<u>Military Department weapon systems</u>	<u>Total cases</u>	<u>Delivered value</u>	<u>Sample cases</u>	<u>Delivered value</u>
<u>Army</u>				
Aircraft	25	\$ 139,628,232	10	\$ 97,151,811
Combat Vehicle	35	648,443,193	11	412,889,451
Missile	<u>338</u>	<u>542,098,892</u>	<u>24</u>	<u>294,813,255</u>
Subtotal	<u>398</u>	<u>\$1,330,170,317</u>	<u>45</u>	<u>\$ 804,854,517</u>
<u>Navy</u>				
Aircraft	2	\$ 1,852,930	0	\$ 0
Combat Vehicle	1	1,291,317	0	0
Missile	<u>195</u>	<u>343,967,281</u>	<u>30</u>	<u>260,349,466</u>
Subtotal	<u>198</u>	<u>\$ 347,111,528</u>	<u>30</u>	<u>\$ 260,349,466</u>
<u>Air Force*</u>				
Aircraft	62	\$7,225,917,923	13	\$3,775,344,864
Missile	<u>47</u>	<u>222,976,977</u>	<u>12</u>	<u>205,413,530</u>
Subtotal	<u>109</u>	<u>\$7,448,894,900</u>	<u>25</u>	<u>\$3,980,758,394</u>
Total	<u>705</u>	<u>\$9,126,176,745</u>	<u>100</u>	<u>\$5,045,962,377</u>

\* The Air Force did not have any FMS cases for combat vehicles.



**APPENDIX B: ERRONEOUS TRANSPORTATION CHARGES****Problems with Transportation Cost Look-up Table**

<u>Activity</u>	<u>Case</u>	<u>Line</u>	<u>Transportation variance</u>	
			<u>Overcharge</u>	<u>Undercharge</u>
<u>Army</u>				
MICOM <u>1/</u>	BA-B-UCS	001	\$ 118,822	\$ 0
	JA-B-VSY	001	76,650	0
	NE-B-VNW	001	<u>468,360</u>	<u>0</u>
Subtotal			<u>\$ 663,832</u>	<u>\$ 0</u>
<u>Navy</u>				
NAVAIR <u>2/</u>	AT-P-ARS	A01	\$ 28,997	\$ 0
	AT-P-ARY	A01	149,771	0
	BA-P-LAA	A01	66,853	0
	EG-P-AAN	A01	0	145,762
	IS-P-ANR	3A1	71,230	0
	TK-P-ADW	A01	0	11,966
	VE-P-ADT	A01	<u>11,252</u>	<u>0</u>
Subtotal			<u>\$ 328,103</u>	<u>\$157,728</u>
<u>Air Force</u>				
AFLC <u>3/</u>	EG-D-ABB	001	\$ 0	\$146,636
	MX-D-ACA	016	<u>0</u>	<u>1,116</u>
Subtotal			<u>\$ 0</u>	<u>\$147,752</u>
Eglin Air Force Base	ID-D-SEA	043	\$ 29,374	\$ 0
	ID-D-SEA	044	26,143	0
	KS-D-AHD	001	12,239	0
	KS-D-AHD	002	4,884	0
	KS-D-YFR	002	0	23,400
	MF-D-YBA	001	0	2,923
	MF-D-YBA	002	0	118
	MU-D-YEC	001	121,078	0
	MU-D-YEC	002	0	54,371
	TH-D-YJA	001	124,217	0
			<u>0</u>	<u>325,412</u>
Subtotal			<u>\$ 317,935</u>	<u>\$406,224</u>
Total			<u>\$1,309,870</u>	<u>\$711,704</u>

**APPENDIX B: ERRONEOUS TRANSPORTATION CHARGES (cont'd)****Internal control problems**

<u>Activity</u>	<u>Case</u>	<u>Line</u>	<u>Transportation variance</u>	
			<u>Overcharge</u>	<u>Undercharge</u>
<u>Army</u>				
AVSCOM 4/	PI-B-UMZ	001	\$ 57,092 5/	\$ 0
	TH-B-VMY	001	<u>0</u>	<u>22,642</u>
Subtotal			<u>\$ 57,092</u>	<u>\$ 22,642</u>
<u>Navy</u>				
NAVAIR	JA-P-AHC	A01	\$ 16,613	\$ 0
	JA-P-AHZ	A01	17,891	0
	NE-P-AES	A01	20,817	0
	SP-P-AHR	A01	0	50
	SP-P-AAX	A01	313,766	0
	SW-P-AAJ	A01	0	182,429
	TK-P-AEQ	A01	<u>919</u>	<u>0</u>
Subtotal			<u>\$ 370,006</u>	<u>\$ 182,479</u>
<u>Air Force</u>				
AFLC	GY-D-YDJ	001	<u>\$ 0</u>	<u>\$1,032,980</u>
Total			<u>\$ 427,098</u>	<u>\$1,238,101</u>

**APPENDIX B: ERRONEOUS TRANSPORTATION CHARGES (cont'd)**

**Changes in method of delivery**

<u>Activity</u>	<u>Case</u>	<u>Line</u>	<u>Transportation variance</u>	
			<u>Overcharge</u>	<u>Undercharge</u>
<b><u>Army</u></b>				
MICOM	NE-B-VRI	001	\$ 593,850	\$ 0
	NE-B-VRI	002	<u>5,457</u>	<u>0</u>
Subtotal			<u>\$ 599,307</u>	<u>\$ 0</u>
<b><u>Navy</u></b>				
NAVAIR	BA-P-LAA	A01	\$ 0	\$ 12,450
	JA-P-AIK	A01	2,432	0
	JA-P-AIN	A01	<u>0</u>	<u>26,783</u>
Subtotal			<u>\$ 2,432</u>	<u>\$ 39,233</u>
Total			<u>\$ 601,739</u>	<u>\$ 39,233</u>
Grand total			<u>\$ 2,338,707</u>	<u>\$1,989,038</u>

1/ Army Missile Command.

2/ Naval Air Systems Command.

3/ Air Force Logistics Command.

4/ Army Aviation Systems Command.

5/ After our review, AVSCOM adjusted the transportation costs for this case by the amount shown.



**APPENDIX C: INACCURATE PACKING, CRATING, AND HANDLING (PC&H) AND  
ASSET USE CHARGES**

<u>Activity</u>	<u>Case</u>	<u>Line</u>	<u>PC&amp;H variances</u>		<u>Asset use variances</u>	
			<u>Overcharge</u>	<u>Undercharge</u>	<u>Overcharge</u>	<u>Undercharge</u>
<u>Army</u>						
<u>MICOM</u>	DE-B-VFS	001	\$ 1,355	\$ 0	\$ 48,214	\$ 0
	IT-B-JAB	001	0	0	11,220	0
	MO-B-UPA	002	0	199,200	0	56,885
	TC-B-UBR	001	168,754	0	109,313	0
	TW-B-YFF	001	<u>0</u>	<u>0</u>	<u>85,322</u>	<u>0</u>
Subtotal			<u>\$170,109</u>	<u>\$ 199,200</u>	<u>\$254,069</u>	<u>\$ 56,885</u>
<u>TACOM 1/</u>	GR-B-WXA	001	\$ 0	\$1,296,700	\$ 0	\$ 984,200
	MO-B-UPD	001	0	545,300	0	420,269
	NO-B-VGW	001	0	82,992	0	62,989
	TU-B-UJU	001	<u>0</u>	<u>100,086</u>	<u>0</u>	<u>0</u>
Subtotal			<u>\$ 0</u>	<u>\$2,025,078</u>	<u>\$ 0</u>	<u>\$1,467,458</u>
Army total			<u>\$170,109</u>	<u>\$2,224,278</u>	<u>\$254,069</u>	<u>\$1,524,343</u>
<u>Navy</u>						
<u>NAVAIR</u>	EG-P-AAN	A01	\$ 0	\$ 275,935	\$ 0	\$ 158,462
	SW-P-AAJ	A01	0	739,954	0	211,415
	TC-P-LAE	A01	<u>0</u>	<u>184,518</u>	<u>0</u>	<u>59,518</u>
Navy total			<u>\$ 0</u>	<u>\$1,200,407</u>	<u>\$ 0</u>	<u>\$ 429,395</u>

**APPENDIX C: INACCURATE PACKING, CRATING, AND HANDLING (PC&H) AND ASSET USE CHARGES (cont'd)**

Activity	Case	Line	PC&H variances		Asset use variances	
			Overcharge	Undercharge	Overcharge	Undercharge
<b><u>Air Force</u></b>						
<b>AFLC 2/</b>	MX-D-ACA	016	\$ 0	\$ 1,183	\$ 0	\$ 0
	MX-D-SDD	001	0	31,431	0	0
	SR-D-AFT	001	<u>0</u>	<u>2,473,527</u>	<u>0</u>	<u>0</u>
Subtotal			<u>\$ 0</u>	<u>\$2,506,141</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b><u>Eglin Air Force Base</u></b>						
	ID-D-SEA	044	\$ 0	\$ 3,704	\$ 0	\$ 1,809
	MF-D-YBA	002	0	2,132	0	0
	MU-D-YEC	002	0	36,156	0	0
	TH-D-YJA	002	<u>0</u>	<u>82,223</u>	<u>0</u>	<u>0</u>
Subtotal			<u>\$ 0</u>	<u>\$ 124,215</u>	<u>\$ 0</u>	<u>\$ 1,809</u>
Air Force total			<u>\$ 0</u>	<u>\$2,630,356</u>	<u>\$ 0</u>	<u>\$ 1,809</u>
Grand total			<u>\$170,109</u>	<u>\$6,055,041</u>	<u>\$254,069</u>	<u>\$1,955,547</u>

1/ After our review, the Tank-Automotive Command (TACOM) adjusted the PC&H costs for cases GR-B-WXA, NO-B-VGW, and TU-B-UJU by the amounts shown. For case NO-B-UPD, the adjustment was \$436,219.

2/ After our review, AFLC adjusted the PC&H costs for case SR-D-AFT by the amount shown.

# APPENDIX D: DELIVERY REPORTING ERRORS

<u>Command</u>	<u>Country case</u>	<u>Reporting inaccuracies</u>		<u>Not reported</u>
		<u>Overcharged</u>	<u>Undercharged</u>	<u>Undercharged</u>
<u>ARMY</u>				
TACOM	MO-B-UPW	\$ 0	\$ 0	\$611,838
	TH-B-VPZ	0	47,674	0
Subtotal		\$ 0	\$47,674	\$611,838
MICOM	DE-B-VFS	\$1,385	\$ 0	\$ 0
	EG-B-UEY	0	87,133	0
	KS-B-WYK	0	9,592	0
	PT-B-UKZ	0	26,706	0
	TC-B-UBR	0	1,768	0
Subtotal		\$1,385	\$125,199	\$ 0
Total		\$1,385	\$172,873	\$611,838
<u>Navy</u>				
NAVAIR	BA-P-LAA	\$ 0	\$ 0	\$ 1,261
	EG-P-AAP	11,215	0	0
	ID-P-AAQ	0	0	7,832
	JA-P-AIV	0	0	10,912
	NE-P-AES	0	0	18,601
	SP-P-AHR	0	0	16,643
	TK-P-AEG	0	0	19,923
	VE-P-ADT	0	46,671	0
Subtotal		\$11,215	\$46,671	\$75,172
NAVSEA *	CN-P-AIU	0	0	\$102,496
	ID-P-AAM	0	0	139,104
	TK-P-ADJ	0	0	11,760
	TK-P-ADZ	0	0	5,170
	TK-P-AEH	0	0	4,700
Subtotal		0	0	\$263,230
Total		\$11,215	\$46,671	\$338,402
<u>Air Force</u>				
AFLC	KS-D-SIH	\$ 0	\$ 0	\$279,804
Total		\$ 0	\$ 0	\$279,804
Grand total		\$12,600	\$219,544	1,230,044

\* Naval Sea Systems Command

Note: As of June 30, 1991, no adjustments had been made to these cases.



**APPENDIX E: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT**

<u>Recommendation Reference</u>	<u>Description of Benefit</u>	<u>Amount and/or Type of Benefit</u>
A.1.a.	Compliance. Submission of updates to the Transportation Cost Look-up Table will ensure that all applicable items are included on the Look-up Table and transportation costs are accurately applied to FMS cases.	Nonmonetary.
A.1.b.	Program results. Recovery of transportation costs not applied to FMS cases.	Recoupment of transportation charges totaling \$2 million not billed to foreign customers.
A.2.	Internal controls. Implementation of established procedures will ensure that transportation charges are based on accurate data and are properly billed to FMS customers.	Nonmonetary.
A.3.	Program results. Additional transportation bill codes will enable DSA's system to recognize and recompute transportation costs for changes in the method of delivery.	Nonmonetary.
B.1.a.	Internal controls. The case manager's validation of data on DD Form 1517 will ensure that delivery source codes are correct when submitted to DSA.	Nonmonetary.

**APPENDIX E: SUMMARY OF POTENTIAL BENEFITS RESULTING FROM AUDIT**  
(cont'd)

<u>Recommendation Reference</u>	<u>Description of Benefit</u>	<u>Amount and/or Type of Benefit</u>
B.1.b.	Program results. Recovery of PC&H and asset use costs not applied to FMS cases.	Recoupment of \$8 million in PC&H and asset use costs not billed to FM customers.
C.1.	Internal controls. Validation of contractor and depot shipments will ensure accurate and prompt reporting to DSA for billing FMS customers.	Recoupment of \$1.4 million in acceleration charges not billed to foreign customers.
C.2.	Program results. A program change in the Navy's system will allow contractor shipments to be reported accurately and promptly on quarterly billing statements sent to FMS customers.	Nonmonetary.

## APPENDIX F: ACTIVITIES VISITED OR CONTACTED

### Office of the Secretary of Defense

Comptroller of the Department of Defense

### Department of the Army

Deputy Chief of Staff for Logistics, Washington, DC  
Army Materiel Command, Arlington, VA  
Army Security Affairs Command, New Cumberland, PA  
Army Armament, Munitions, and Chemical Command,  
Rock Island, IL  
Army Aviation Systems Command, St. Louis, MO  
Army Missile Command, Redstone Arsenal, AL  
Army Tank-Automotive Command, Warren, MI  
Anniston Army Depot, Anniston, AL  
Letterkenny Army Depot, Chambersburg, PA

### Department of the Navy

Navy International Programs Office, Washington, DC  
Naval Air Systems Command, Washington, DC  
Naval Sea Systems Command, Washington, DC  
Naval Supply Systems Command, Washington, DC  
Navy International Logistics Control Office,  
Philadelphia, PA  
Navy Materiel Transportation Office, Norfolk, VA  
Naval Ordnance Station, Indian Head, MD  
Naval Undersea Warfare Engineering Station,  
Keyport, WA  
Naval Weapons Station, Yorktown, VA

### Department of the Air Force

Assistant Secretary of the Air Force for Financial Management and  
Comptroller, Washington, DC  
Aeronautical Systems Division, Wright-Patterson Air Force  
Base, OH  
Air Force Logistics Command, Wright-Patterson Air Force Base, OH  
Air Force Systems Command, Andrews Air Force Base, MD  
Air Command and Control Center, Andrews Air Force Base, MD  
Air Force Directorate for International Programs, Washington, DC  
Warner Robins Air Logistics Center, Warner Robins, GA  
Eglin Air Force Base, FL  
Kirtland Air Force Base, Albuquerque, NM

**APPENDIX F: ACTIVITIES VISITED OR CONTACTED (cont'd)**

**Defense Agencies**

Defense Logistics Agency, Alexandria, VA  
Defense Contract Management District Mid-Atlantic,  
Philadelphia, PA  
Defense Contract Management District Northeast, Boston, MA  
Defense Contract Management District South, Atlanta, GA  
Defense Security Assistance Agency, Washington, DC  
Defense Finance and Accounting Service, Denver Center,  
Denver, CO  
Deputy for Security Assistance, Denver, CO

## APPENDIX G: REPORT DISTRIBUTION

### Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics)  
Comptroller of the Department of Defense

### Department of the Army

Secretary of the Army  
Assistant Secretary of the Army (Financial Management)  
Commander, U.S. Army Materiel Command  
Inspector General, Department of the Army

### Department of the Navy

Secretary of the Navy  
Assistant Secretary of the Navy (Financial Management)

### Department of the Air Force

Secretary of the Air Force  
Assistant Secretary of the Air Force (Financial Management and  
Comptroller)

### Other Defense Activities

Director, Defense Security Assistance Agency  
Director, Defense Finance and Accounting Service

### Non-DoD Activities

Office of Management and Budget  
U.S. General Accounting Office,  
NSIAD Technical Information Center

Chairman and Ranking Minority Members of the following  
Congressional Committees:

Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Operations  
House Committee on Legislation and National Affairs



**PART IV: MANAGEMENT COMMENTS**

Comptroller of the Department of Defense

Department of the Army

Department of the Navy

Department of the Air Force

Defense Security Assistance Agency



# Comptroller of the Department of Defense Comments



OFFICE OF THE COMPTROLLER OF THE DEPARTMENT OF DEFENSE

WASHINGTON, DC 20301-1100

MAY 20 1992

(Management Systems)

MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE,  
OFFICE OF THE INSPECTOR GENERAL

SUBJECT: Draft Audit Report on Accessorial Charges Applied to  
Foreign Military Sales (Project No. 1FA-0002)

Your memorandum, dated March 3, 1992, provided the subject draft report for review and comment. Comments are provided in the attachment.

We appreciate the opportunity to comment on this draft report. Should you desire to discuss these comments further, please contact Mr. Robert Florence, at (703) 697-0585.

  
Alvin Tucker  
Deputy Comptroller  
(Management Systems)

Attachment

## Comptroller of the Department of Defense Comments (continued)

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### COMPTROLLER OF THE DEPARTMENT OF DEFENSE COMMENTS ON DRAFT AUDIT REPORT ON ACCESSORIAL CHARGES APPLIED TO FOREIGN MILITARY SALES (PROJECT NO. 1FA-0002)

RECOMMENDATION: We recommend that the Deputy Comptroller of the Department of Defense (Management Systems) implement a change to DoD Manual 7290.3-M, "Foreign Military Sales Financial Management Manual," to add transportation bill codes to allow the Deputy for Security Assistance's system to charge the correct transportation rate when the method of delivery changes for items on the Transportation Cost Look-up Table.

COMMENT: Concur with intent. This office is currently coordinating a formal change under SD 106 procedures to a proposed Volume 15, Security Assistance Policies and Procedures, of a new Financial Management Regulation. This Regulation is intended to replace a number of DoD financial management issuances, including DoD 7290.3-M.

The proposed change would require the charging of actual transportation costs in lieu of using either transportation surcharges or the transportation look-up table. While look-up tables should, in theory, be more equitable than a standard surcharge system, experience, as well as prior audits, has shown that these tables are not adequately updated.

The transportation surcharge system appears to be somewhat inequitable for certain big ticket items such as missiles. Also, large unexplained balances have accumulated in the transportation surcharge account which, if equitable, should remain close to a zero balance.

The SD 106 comments are due from the DoD Components by the end of May 1992. Should we find that actual charges cannot be implemented at this time, this office will consider improvements to operation of the look-up table. One such change might be the mandatory use of transportation bill codes and the use of transportation bill code "W" by the DoD Components to indicate that the look-up table charge is applicable.

FINDING: Billing Adjustments for PC&H and Asset Use Charges. The draft report on page 20 states that the Defense Finance and Accounting Service - Denver Center's "...computer system was programmed not to process billings for asset use charges reported on DD Forms 1517." This statement implies that the Defense Finance and Accounting Service - Denver Center computer system was programmed incorrectly.

COMMENT: In accordance with DoD guidance, the Defense Finance and Accounting Service - Denver Center computer system was programmed to exclude asset use charges for deliveries after November 30, 1989. This is in compliance with the Fair Pricing Legislation Act.

## Comptroller of the Department of Defense Comments (continued)

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**FINDING: Promptness of Reported Deliveries.** The draft report on page 29 states that the DoD 7290.3-M provides that customers should be billed within 30 days of the date of shipment. Because the Defense Finance and Accounting Service - Denver Center processes Foreign Military Sales customer billings on a fixed monthly cycle, the 30 day standard is difficult to achieve.

**COMMENT:** DoD 7290.3-M does not provide for billings to customers within 30 days of the date of shipment as mentioned in the finding. Rather, paragraph 80002 B. of that issuance states, "Implementing Agencies shall report accrued expenditures (work in process) and physical deliveries to the SAAC through the use of a billing and reporting procedure prescribed in this chapter and within 30 days of occurrence (date of shipment or performance)." This standard is applicable to DoD Component reporting of deliveries, using a DD Form 1517, to the Defense Finance and Accounting Service - Denver Center.

The intent is for DoD Components to report within 30 days of delivery. Since delivery reports are submitted by the DoD Components, and processed by the Defense Finance and Accounting Service - Denver Center only once a month, some deliveries are reported more than 30 days after shipment. The standard is considered to be met if all shipments for a month are reported to the Defense Finance and Accounting Service - Denver Center on the applicable DD Form 1517 for that month.



# Department of the Army Comments



DEPARTMENT OF THE ARMY  
OFFICE OF THE DEPUTY CHIEF OF STAFF FOR LOGISTICS  
WASHINGTON, DC 20310-0500



DALO-SAA

13 MAY 1992

MEMORANDUM THRU ASSISTANCE SECRETARY OF THE ARMY (FINANCIAL  
MANAGEMENT)

FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE (AUDITING), 400 ARMY  
NAVY DRIVE, ARLINGTON, VA 22202-2884

SUBJECT: DODIG, Draft Report, Accessorial Charges Applied to  
Foreign Military Sales (Project No. 1FA-0002)

1. Reference subject report.
2. Comments on the subject draft report are at Tab A.

FOR THE DEPUTY CHIEF OF STAFF FOR LOGISTICS:

Encl

FRANK S. BESSON III  
Director of Security Assistance

Mr. Liszewski/50390

## Department of the Army Comments (continued)

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DEPARTMENT OF THE ARMY  
U.S. ARMY SECURITY ASSISTANCE COMMAND  
5001 EISENHOWER AVENUE  
ALEXANDRIA, VA 22333-0001



AMSAC-SI (36)

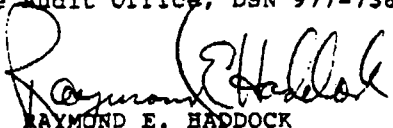
21 May 1992

MEMORANDUM FOR Commander, U.S. Army Materiel Command, Internal  
Review Audit Compliance, 5001 Eisenhower Avenue,  
Alexandria, VA 22333-0001

SUBJECT: DODIG Draft Report, Accessorial Charges Applied to  
Foreign Military Sales, Project Number 1FA-002 (AMC No.D9101)

1. Our proposed Army Materiel Command position for subject findings and recommendations are enclosed.
2. If additional information is needed, please contact Mr. Alfred D. Haskins, Security Assistance Audit Office, DSN 977-7389/5133.

Encl

  
RAYMOND E. HADDOCK  
Major General, USA  
Commanding

## Department of the Army Comments (continued)

### FINDING AND RECOMMENDATION

#### A-TRANSPORTATION COSTS

**FINDING:** The Military Departments did not accurately bill transportation costs to Foreign Military Sales (FMS) customers for the shipment of Defense articles. This condition had three causes. First, the Military Departments did not always comply with DOD's requirement that the Transportation Cost Look-up Table be updated annually. Second, the Military Departments lacked effective internal controls to ensure that case managers reported accurate billing information to the Deputy for Security Assistance (DSA) for customer deliveries. Third, DSA's Defense Integrated Financial System (DIFS) did not accurately compute transportation costs for Look-Up Table items when the method of delivery was changed. As a result, FMS customers were overcharged by \$2.3 million for transportation costs in 19 cases and undercharged by \$2 million on 13 cases.

**ADDITIONAL FACTS:** The statement that the weapon systems were in full production by 1987 is not correct for I-TOW and TOW 2A Missiles. The NSNs of I-TOW Missiles shipped on FMS Case BA-B-UCS do contain coated Launch Motors installed during production at contractor's facility. The Engineering Change Proposal (ECP) for TOW Missiles containing coated Launch Motors was incorporated into the contract in Sep 89. Shipments of TOW Missiles, JA-B-VSY, occurred Jul 90 and BA-B-UCS occurred Sep 90. The information was furnished to include these items in the Transportation Look-Up Table in Aug 89. The cutoff date for items to be included in the October update is June 30 of each year. These items were submitted too late to be included in the FY 90 update of the Look-Up Table.

**RECOMENDATIONS:** A-1a. Require operating activities to comply with DOD Manual 5105.38-M, "Security Assistance Management Manual," by submitting annual updates to the Transportation Cost Look-up Table in a timely manner.

**ACTION TAKEN:** Concur. The operating activities will be required to submit annual updates to the Transportation Look-Up Tables in a timely manner.

A-1b. Correct the transportation charges for the foreign military sales cases listed in Appendix B.

**ACTION TAKEN:** Nonconcur. Until Defense Security Assistance Agency (DSAA) approves the addition of an item to the Look-Up Table, the percentage rate charge for transportation cost is appropriate. It has been a long standing policy not to make retroactive adjustments to billing after the Look-Up Tables are changed. In addition, there is no basis to retroactively adjust these charges. The percentage rate charge for transportation cost

## Department of the Army Comments (continued)

is always used until DSAA approves the addition of an item to the Look-Up Table. The table was initially developed at the option of U.S. Government for the purpose of providing estimated actual transportation charges for selected material shipped in Defense Transportation System when costs using standard transportation percentage were significantly different from estimates actual charges.

COMMAND COMMENTS ON MONETARY BENEFITS: Nonconcur with the potential monetary benefits. The percentage rate was the appropriate rate to charge at the time the items were shipped. Therefore, the overcharges stated in the report are inaccurate.

A-2. Strengthen internal control procedures to ensure that for each delivery reported, accurate transportation billing information is submitted on DD Form 1517 to the Deputy for Security Assistance.

ADDITIONAL FACTS: The audit report stated ineffective internal control procedures were used to process billing information, resulting in overcharges of \$57,000 and \$23,000 in undercharges to FMS customers. For case PI-B-UMZ, line 001, AVSCOM did not overbill transportation costs; in fact AVSCOM has not billed any transportation costs. A print of the DIPS system for this case line shows zero dollars for accessorial charges below the line. The above the line unit cost did not include any transportation costs either. Obviously, the \$57,092 amount is an error in the subject report. For case TH-B-VMY, line 001, the bill reviewed by the IG auditor was the first commitment based estimated bill. The normal billing cycle for AVSCOM aircraft from procurement requires several years for completion. It is too soon for a proper determination regarding the \$22,642 undercharge of transportation costs.

ACTION TAKEN: Concur. Effective internal control procedures will be used to ensure the accuracy of the transportation billing information, submitted on DD Form 1517 to the Deputy for Security Assistance.

## Department of the Army Comments (continued)

### FINDING AND RECOMMENDATION

#### B-Packing, Crating, and Handling and Asset Use Charges

**FINDING:** The Military Departments did not accurately bill Foreign Military Sales (FMS) customers for Packing, Crating, and Handling (PC&H) and asset use costs for Defense articles. This condition occurred because FMS case managers did not follow internal control procedures to ensure that deliveries were reported accurately to the Deputy for Security Assistance (DSA). As a result, FMS customers were undercharged \$8 million for PC&H and asset use charges on 18 FMS cases. The FMS customers were also overcharged \$424,00 for PC&H and asset use charges on four cases.

**RECOMMENDATION:** B-1a. Require FMS case managers to follow internal control procedures and validate the accuracy of delivery source codes reported to the Deputy for Security Assistance for billing Customers.

**ACTION TAKEN:** Concur in Principle. Internal control procedures will be followed and delivery source codes reported to the Deputy for Security Assistance will be validated for accuracy. The case managers have the overall responsibility for all facets of an FMS case. However, the tasks of validating/verifying the accuracy of costs billed were properly assigned to supporting personnel in the Finance and Accounting arena. The case managers rely on the supporting activities to provide the necessary financial reports to exercise this responsibility.

B-1b. Adjust each foreign military sales case that has inaccurate or unbilled packing, crating, and handling and asset use charges using the amounts shown in Appendix C.

**ACTION TAKEN:** Partially Concur. The corrections were made by Missile Command in June 1991 and the DODIG was notified, but the draft report does not mention that corrections were made. The Tank Automotive Command (TACOM) coordinated with the TACOM Comptroller and adjusted each FMS case that had inaccurate or unbilled packing, crating, and handling (PC&H) and asset use charges using the amounts shown in Appendix C. However, Aviation Systems Command does not believe the one percent asset use charge should be applied to the carcass billed value of the aircrafts. The intent of all three cases was to provide used, but newly overhauled aircraft to the FMS customer. The AVSCOM included a four percent asset use charge on all of the industrial fund government owned, government operated (IF GOGO) facility costs and

## Department of the Army Comments (continued)

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also one percent asset use on the repair parts out of stock. In addition, all three cases are closed at the Security Assistance Accounting Center (SAAC) with one case, ES-B-VFG, not rebillable at all since the amount is below the case reopening criteria.

COMMAND COMMENTS ON MONETARY BENEFITS: Concur. The potential monetary benefits appear to be reasonable.

FINDING AND RECOMMENDATION

C-DELIVERY REPORTING PROCEDURES

**FINDING:** The Military Departments did not submit accurate and timely reports to the Deputy for Security Assistance (DSA) when Defense articles were delivered to foreign military sales (FMS) customers. These conditions occurred because case managers did not follow internal control procedures by accurately monitoring the reporting of shipments from contractors and depots to FMS customers, as required by DOD Manual 5101.38-M. Also, the Navy's reporting system, unlike the Army and Air Force systems, did not permit deliveries from contractors to be reported to DSA until payments to contractors had been recorded. As a result, FMS customers were undercharged \$1.4 million for transportation and Packing, Crating, and Handling (PC&H) costs on 19 cases, and overcharged by \$12,600 on 2 cases. Also, the untimely reporting of deliveries to DSA for billing of FMS customers delayed the transfer of \$246 million in FMS funds from the FMS Trust Fund Account to the proper U.S. Government appropriations.

**RECOMMENDATION:** C-1. Specifically, case managers must validate all delivery reports for accuracy and ensure that all reports are promptly sent to the Deputy for Security Assistance for Billing of accessorial charges.

**COMMAND COMMENTS:** Concur in Principle. The case manager has the total responsibility for the financial and logistical aspects of a case. However, the validation process should be performed by the appropriate office charged with conducting financial reviews and financial closeout of case lines. These tasks are properly assigned to supporting personnel in the Finance and Accounting area.

**COMMENTS ON MONETARY BENEFITS:** Concur. The monetary benefits appear to be reasonable. Adjustments have been made to correct the billings.



# Department of the Navy Comments

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THE ASSISTANT SECRETARY OF THE NAVY  
(Research, Development and Acquisition)  
WASHINGTON, D.C. 20350-1000

MAY 14 1992

MEMORANDUM FOR DEPARTMENT OF DEFENSE ASSISTANT INSPECTOR GENERAL  
FOR AUDITING


Subj: DRAFT AUDIT REPORT ON ACCESSORIAL CHARGES APPLIED TO  
FOREIGN MILITARY SALES (PROJECT NO. 1FA-0002)

Ref: (a) DODIG memo of 3 Mar 92

Encl: (1) DON Response to Draft Audit Report

I am responding to the draft audit report forwarded by reference (a) concerning the application of accessorial charges to foreign military sales cases.

The Department of the Navy response is provided at enclosure (1). We generally agree with the draft report findings and recommendations. As outlined in the enclosed comments, the Department has taken, or is planning to take, specific actions to ensure that adequate management controls are enforced.

  
Gerald A. Cann

## Department of the Navy Comments (continued)

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### Department of the Navy Response

to

DODIG Draft Report of March 3, 1992

on

Accessorial Charges Applied to Foreign Military Sales  
(Project No. 1FA-0002)

#### Finding A:

The Military Departments did not accurately bill transportation costs to foreign military sales (FMS) customers for the shipment of Defense articles. This condition had three causes. First, the Military Departments did not comply with DoD's requirement that the Transportation Cost Look-up Table be updated annually. Second, the Military Departments lacked effective internal controls to ensure that case managers reported accurate billing information to the Deputy for Security Assistance (DSA) for customer deliveries. Third, DSA's Defense Integrated Financial System did not accurately compute transportation costs for Look-up Table items when the method of delivery was changed. As a result, FMS customers were overcharged by \$2.3 million for transportation costs on 19 cases and undercharged by \$2 million on 13 cases.

#### Recommendation A-1:

We recommend that the Commander, Army Materiel Command; Deputy Assistant Secretary of the Navy for International Policy; and Deputy Under Secretary of the Air Force (International Affairs):

a. require operating activities to comply with DoD Manual 5105.38M, "Security Assistance Management Manual," by submitting annual updates to the Transportation Cost Look-up Table in a timely manner.

b. correct the transportation charges for the FMS cases in Appendix B.

#### DON Position:

Concur. The Navy International Programs Office (Navy IPO) will issue an advisory to the Navy community requiring submission of updates to the Transportation Cost Look-up Tables. The Navy IPO will also monitor submission of updates and ensure information is submitted for correction of transportation charges in Appendix B of the report. Estimated completion date 30 September 1992.

ENCLOSURE (1)

## Department of the Navy Comments (continued)

### Recommendation A-2:

We recommend that the Commander, Army Materiel Command; Director, Navy IPO; and Deputy Under Secretary of the Air Force (International Affairs) strengthen internal control procedures to ensure that for each delivery reported, accurate transportation billing information is submitted on DD Form 1517 to the DSA.

### DON Position:

Concur. Navy IPO will include a review of transportation charges during Case Management Reviews and during financial reconciliation at case closure. Estimated completion date 30 June 1992.

### Finding B:

The Military Departments did not accurately bill FMS customers for PC&H and asset use costs for Defense articles. This condition occurred because FMS case managers did not follow internal control procedures to ensure that deliveries were reported accurately to the DSA. As a result, FMS customers were undercharged \$8 million for PC&H and asset use charges on 18 FMS cases. FMS customers were also overcharged \$424,000 for PC&H and asset use charges on four cases.

### Recommendation B-1:

We recommend that the Commander, Army Materiel Command; Director, Navy IPO; and Under Secretary of the Air Force (International Affairs):

- a. require FMS case managers to follow internal control procedures and validate the accuracy of delivery source codes reported to the DSA for billing customers.
- b. adjust each FMS case that has inaccurate or unbilled PC&H and asset use charges using the amounts shown in Appendix C.

### DON Position:

Concur. The Navy IPO will review assignments of delivery source codes during Case Management Reviews and case closure reconciliation to ascertain correct application. Billing corrections for verified inaccurate amounts reflected in Appendix C will be submitted for correction. Estimated completion date 30 September 1992.

### Finding C:

The Military Departments did not submit accurate and timely reports to the DSA when Defense articles were delivered to FMS customers. These conditions occurred because case managers did not follow internal control procedures by accurately monitoring

## Department of the Navy Comments (continued)

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the reporting of shipments from contractors and depots to the FMS customers, as required by DoD Manual 5101.38M. Also, the Navy's reporting system, unlike the Army and Air Force systems, did not permit deliveries from contractors to be reported to DSA until payments to contractors had been recorded. As a result, FMS customers were undercharged \$1.4 million for transportation and PC&H costs on 19 cases, and overcharged by \$12,600 on 2 cases. Also, the untimely reporting of deliveries to DSA for billing of FMS customers delayed the transfer of \$246 million in FMS funds from the FMS Trust Fund Account to the proper U.S. Government appropriations.

### Recommendation C-1:

We recommend that the Commander, Army Materiel Command; Director, Navy IPO; and Under Secretary of the Air Force (International Affairs) require case managers to follow procedures in DoD Manual 5105.38-M to ensure that FMS cases are effectively monitored, and shipments from contractors and depots are reported to the DSA. Specifically, case managers must validate all delivery reports for accuracy and ensure that all reports are promptly sent to the DSA for billing of accessorial charges.

### DON Position:

Concur. The Navy IPO will include review of delivery reporting performance during Case Management Reviews and financial reconciliation at case closure. Estimated completion date 30 June 1992.

### Recommendation C-2:

We recommend that the Commander, Naval Supply Systems Command, direct the Navy International Logistics Control Office to reprogram the Management Information System for International Logistics to allow deliveries to be reported to the DSA so that FMS customers can be billed without recorded contractor payments.

### DON Position:

Concur, with a stipulation. The requested change to the Management Information System for International Logistics was implemented 1 October 1989, so no additional change is required. Rigid enforcement of a requirement to report deliveries in advance of contractor payments would, however, negatively affect the unreconciled balance situation between deliveries to foreign customers and disbursements in the FMS Trust Fund. Action complete.

# Department of the Air Force Comments



DEPARTMENT OF THE AIR FORCE  
WASHINGTON, D.C. 20330-1000

OFFICE OF THE UNDER SECRETARY

MAY 28 1992

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, OFFICE  
OF THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: DOD(IG) Draft Audit Report on Accessorial Charges  
Applied to Foreign Military Sales (Project No.  
1FA-0002) - INFORMATION MEMORANDUM

This is in reply to your memorandum for Assistant Secretary of the Air Force (Financial Management and Comptroller) requesting Air Force comments on the subject report. The following comments on the findings and recommendations are provided per your request:

## A. Transportation Costs

1. Concur with finding that the Transportation Cost Look-Up Table has not been adjusted for the past two years and that assessing the standard accessorial percentage, for extremely high cost items such as missiles, is an inappropriate method which would result in unrealistic charges to FMS customers. However, please be advised that the Cost Look-Up Table is an inaccurate tool for assessing transportation costs. The current table concept is somewhat of a "dinosaur" in a high-tech age. The table reflects the estimated transportation costs for a single "unit" (one each) transported. However, the purchase and transportation of a single item is a rarity, and transportation costs in the Defense Transportation System (DTS) do not graduate linearly along a predetermined cost scale. For example, transportation costs for ten each of a given type of missile do not equate to ten times the cost to move a single unit. Rather, the "real" transportation costs are based on weight/cube and mileage factors. These facts prevent the development of accurate "cost tables". The "Look-Up Table" issue is further complicated by uncertainties over where item is destined. For example, if Germany and Japan buy an identical missile system in identical quantities sourced from an East Coast CONUS supply point, the transportation costs to each will vary substantially. If the "Look-Up Table" concept were utilized, both customers would be charged the same cost, assuming that the same mode of transportation is utilized for both customers.

2. For your information, the transportation costs for the Look-Up Table (and the Look-Up Table concept) are currently being reviewed by AFMC(I)/LGTT for the annual (October) update.

## Department of the Air Force Comments (continued)

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3. The Air Force cases identified in the audit are being reviewed by AFLC ILC/XMXB and any incorrect transportation charges are being corrected. Preliminary investigation of GY-D-YDJ revealed that oversight did not cause the improper billing. The system is programmed to cause the transportation bill code to override the delivery term code if the two codes are not consistent. Investigation of this case continues and appropriate action will be taken.

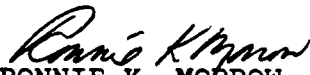
### B. Packing, Crating, and Handling (PC&H)

Concur that a mechanism is needed to prevent/detect errors in the delivery source codes that could result in significant incorrect PC&H charges. Review of regulations used by personnel who determine and input delivery source codes will be completed by AFLC ILC/XMXB and appropriate action taken. Cases identified with inaccurate PC&H will be researched and corrective action taken.

### C. Delivery Reporting Procedures

The finding on case KS-D-SIH as an error in delivery reporting is being reviewed/researched and corrective action will be taken by AFLC ILC/XMXB.

The SAF/IA point of contact is Ms Cruz Menchaca, SAF/IAPPW, telephone (703) 697-0072. The points of contact at Wright Patterson AFB, Ohio are: Mr Gene Shadowens, AFMC(I)/LGTT, (DSN) 787-3422, and Mrs Nancy Hudson, AFLC ILC/XMXB (DSN) 787-2261.

  
RONNIE K. MORROW, Colonel, USAF  
Director of Plans and Programs  
Deputy Under Secretary, Int'l Affairs

cc: SAF/FMBF  
SAF/IAPPM  
DSAA/COMPTROLLER  
AFMC(I)/LGTT  
AFLC ILC/XMXB

# Director, Defense Security Assistance Agency Comments



## DEFENSE SECURITY ASSISTANCE AGENCY

WASHINGTON, DC 20301-2800

07 MAY 1992

In reply refer to:  
I-001896/92

MEMORANDUM FOR DIRECTOR, FINANCIAL MANAGEMENT DIRECTORATE,  
OFFICE OF THE ASSISTANT INSPECTOR GENERAL FOR  
AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on Accessorial Charges Applied  
to Foreign Military Sales (Project 1FA-0002)

The subject draft audit report has been reviewed by my  
staff. Our comments follow:

### EXECUTIVE SUMMARY: Potential Benefits of Audit

The potential savings are overstated by the value of transportation transactions cited in the audit. Savings denote a potential reduction (or recoupment) in the value of DoD appropriations; however, DoD appropriations do not finance transportation of FMS articles. Any past transportation discrepancies (reported at \$2.0 million) would affect only the FMS Trust Fund Account, which does not contain U.S. Government equity. Additionally, the audit report claims savings of future accessorial billing (\$1.2 million) for unreported deliveries. The report demonstrates "delayed" billing, not failure to bill. While we acknowledge time value of money to claim as savings for non-transportation costs, the value is only a fraction of the potential billing amounts.

The potential benefits of audit would be more meaningful if the scope or universe of audited charges were provided. \$8.2 million in errors reported by audit would likely represent less than a 2 percent error rate. While we strive for all charges to customers to be accurate, an error rate of 2 percent argues against the adverse criticism that internal controls are not in place and functioning.

### PART I: INTRODUCTION

#### Management Responsibilities

Change the last sentence to read: "The case manager must also ensure that the Defense Integrated Financial System (DIFS) and the DoD Component's case records are reconcilable." There is case financial data resident in DIFS that is not part of the component's case records (i.e. CAS OA, LSC OA, "below-the-line charges, etc.).

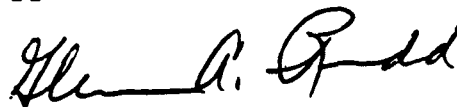
PART II: FINDINGS AND RECOMMENDATIONS

B. Packing, Crating, and Handling and Asset Use Charges

**Fair Pricing Legislation Act.:** Change the last part of the first sentence to read: "...eliminated asset use charges for FMS deliveries reported to the Deputy for Security Assistance after December 1989."

**Billing Adjustments for PC&H and asset use charges. :** Change the last part of the fifth sentence to read: "...eliminated asset use charges for FMS deliveries reported to the Deputy for Security Assistance after December 1989."

**C. Delivery Reporting Procedures:** The audit report does not properly interpret the significance of delayed reporting. Timely reporting is important for customer feedback; collection of accessorial charges; and documenting the start date for filing of Reports of Discrepancy. But, neither billing to the FMS customer nor payment to the Military Department is dependent on reporting of physical deliveries. Customers are billed on payment schedules "in anticipation of" disbursements and deliveries. By law, we bill and collect in advance of deliveries. Similarly, payment to contractors for production (virtually all of which directly cite the FMS Trust Fund and do not involve appropriations) or to Military Departments for issues from stock (virtually all of which are self-reimbursable) are made prior to delivery reporting to the Security Assistance Accounting Center. The statement \$246 million could have transferred earlier to appropriations is not supported.



GLENN A. RUDD  
DEPUTY DIRECTOR

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